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SUBJECT: HOCKEY REPLACE BISHOP AS SHADOW TREASURER

1. (SBU) SUMMARY: Following months of public criticism in the media and private criticism by her colleagues, Deputy Opposition Leader Julie Bishop yesterday resigned as Shadow Treasurer, clearing the way for Liberal Leader Malcolm Turnbull to replace her with strong media performer Joe Hockey. Bishop replaces Helen Coonan in the Foreign Affairs portfolio and Coonan assumes Hockey's previous portfolio of Finance. The same day, former Liberal Party Leader Brendan Nelson announced he would not be re-contesting his seat. There are rumors former Treasurer Peter Costello declined an offer from Turnbull to replace Bishop as Shadow Treasurer. Speculation that Costello will pursue the Liberal leadership persists, with a new opinion poll indicating he is the preferred over Turnbull as Leader. The replacement of Bishop is widely seen as an acknowledgment that the Coalition is losing the key political debate on the economy.
END SUMMARY.

KNIVES OUT FOR BISHOP

2. (U) Bishop, who has been Deputy Opposition Leader since the Coalition entered Opposition, became Shadow Treasurer when Turnbull became Opposition Leader five months ago (by tradition, Deputy Leaders chose their portfolio). However, in one of her first interviews, she appeared not to know the official interest rate. Soon after, she faced allegations that she had plagiarized the "Wall Street Journal" in one of her speeches, and one of her staff apparently wrote an essay in her name for a book on the future of the Liberal Party. Bishop recently quoted a controversial economic theory - the Laffer curve - to argue that cutting taxes ultimately increases government revenue. While the Government and the press reveled in her misfortune, unnamed Liberal MPs publicly bemoaned her performance.

THE CHANGES

3. (U) On February 16, Bishop, 52, announced her resignation as Shadow Treasurer. She said "ongoing commentary on my role has been a distraction from the scrutiny that should have been applied to the government's reckless economic performance." Subsequently, Turnbull announced that he had appointed Joe Hockey, 43, as Shadow Treasurer. Bishop replaces Helen Coonan in the Foreign Affairs Portfolio, and Coonan replaces Hockey in Finance. Due to Hockey's increased workload, Education Spokesman Christopher Pyne relieves him of the position of Manager of Opposition Business in the Parliament - a role dealing with parliamentary tactics and procedures. Stephen Parry takes over from Coonan as Manager of Opposition Business in the Senate. Turnbull praised Hockey, one of the more popular figures in the Coalition and a media favorite, as "formidable." Hockey was a Cabinet Minister during the Howard government, holding the positions of Minister for Human Services, and Minister for Employment and Workplace Relations.

NELSON PULLS THE PLUG WHILE COSTELLO LINGERS

14. (U) That evening, former Liberal Brendan Nelson told his Liberal electorate branch that he would not be recontesting his seat because it was time for "renewal." He did not inform Turnbull, who deposed him as leader, prior to his announcement. There are media reports that Turnbull offered former Treasurer Peter Costello the Shadow Treasury Portfolio. Liberals are divided over whether an offer was actually made. Meanwhile, a new poll released February 17 indicates Costello is preferred over Turnbull as Liberal leader 37 to 26 percent, with Australian Labor Party (ALP) voters preferring Costello 37 to 22 percent. Speculation about Costello's future has intensified.

SHE HAD TO GO

15. (SBU) COMMENT: Bishop acted in the best interests of the Coalition. It is likely Turnbull, a close friend, was reluctant to axe her. The economy - the Coalition's traditional strong suit - is dominating political debate but the Government has closed the gap in the polls on economic management, and the majority of voters support Rudd's handling of the economic crisis. Bishop, her credibility in tatters, was unable to score any political points against Treasurer Wayne Swan - widely regarded as the Government's weak link. Hockey is jovial, popular, and has media "cut through." He will apply a lot more pressure on Swan. Another Liberal moderate from Sydney, he should work well with Turnbull. However, the speculation surrounding Costello is an unwanted distraction. Although they dislike each other, it is entirely possible that Turnbull offered Costello the Treasury portfolio. Costello has by far the most

CANBERRA 00000157 002 OF 002

economic credibility in the Coalition. In April, Costello must decide if he will recontest his parliamentary seat at the next election. If he decides to stay on, and if Turnbull's polling numbers do not improve as the economy continues to deteriorate, Costello could be seen as the savior of the Liberal Party by this December.

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